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Viewing cable 09DHAHRAN89, SAUDI ARAMCO STILL AIMING FOR 12 MILLION BARREL PRODUCTION

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Understanding cables
Every cable message consists of three parts:

- The top box shows each cables unique reference number, when and by whom it originally was sent, and what its initial classification was.
- The middle box contains the header information that is associated with the cable. It includes information about the receiver(s) as well as a general subject.
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If you find meaningful or important information in a cable, please link directly to its unique reference number. Linking to a specific paragraph in the body of a cable is also possible by copying the appropriate link (to be found at theparagraph symbol). Please mark messages for social networking services like Twitter with the hash tags **#cablegate** and a hash containing the reference ID e.g. **#09DHAHRAN89**.

Reference ID	Created	Released	Classification	Origin
09DHAHRAN89	2009-04-20 06:27	2011-08-30 01:44	SECRET//NOFORN	Consulate Dhahran

Appears in these articles:
http://www.mcclatchydc.com/2011/05/25/114759/wikileaks-saudis-often-warned.html

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VZCZCXRO3774
PP RUEHDE RUEHDIR
DE RUEHDH #0089/01 1100627
ZNY SSSSS ZZH
P 200627Z APR 09
FM AMCONSUL DHAHRAN
TO RUEHC/SECSTATE WASHDC PRIORITY 0112
INFO RHEHAAA/NSC WASHINGTON DC
RUEHZM/GULF COOPERATION COUNCIL COLLECTIVE
RUEHHH/OPEC COLLECTIVE
RUEHDH/AMCONSUL DHAHRAN 0140

S E C R E T SECTION 01 OF 02 DHAHRAN 000089

NOFORN
SIPDIS

PLEASE PASS TO NEA/ARP HARRIS AND EEB/ESC SULLIVAN

E.O. 12958: DECL:  4/20/2019
TAGS: SA EPET ENRG PGOV PINR
SUBJECT: SAUDI ARAMCO STILL AIMING FOR 12 MILLION BARREL PRODUCTION
CAPACITY BY JUNE 2009

REF: DHAHRAN 74

DHAHRAN 00000089  001.2 OF 002
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CLASSIFIED BY: Joseph A. Kenny, Consul General, EXEC, DOS.
REASON: 1.4 (b), (d)
¶1. (S/NF) KEY POINTS:

-- Saudi Aramco's Senior Vice President for Exploration and Production, Amin Nasser (protect), says that Saudi Aramco will achieve 12 million barrels per day (bpd) of production capacity by June 2009.

-- However, a long-serving Aramco employee does not believe that they can maintain production at that level for more than two months or so. He asserted that Saudi oilfields are "sick" and in worse shape than commonly assumed.

-- Aramco's new CEO, Khalid al-Falih, has begun to take a closer look at the health of the oil fields and ordered regular reviews of the reservoirs.

-- Nasser says that Aramco will never be able to keep up with demand for cheap gas feedstock at current discounted prices of US $0.75 per million British thermal units (Btu).

-- Aramco's Executive Management have been troubled by the new U.S. administration's "addiction to foreign oil" rhetoric.

End key points.

SAUDI ARAMCO: WE WILL REACH 12 MILLION BPD CAPACITY

¶2. (S/NF) In a March 31 meeting, Saudi Aramco Senior Vice President for Exploration and Production Amin Nasser (protect) told Consul General Kenny (CG) that as of June Saudi Aramco will reach 12 million bpd of crude oil production capacity. However, a long-serving Western expatriate Aramco employee claims that a daily production rate at or near 12 million bpd is just "smoke and mirrors." He asserted that the Saudi oil fields are "sick" and said that Saudi's Ghawar oil field (the world's largest) "is in bad shape." He said that current Saudi Aramco President and CEO Khalid al-Falih (an engineer by training) has become aware of these problems and has begun to take a closer look at the health of the oil fields. In fact, shortly after he became aware of some of the oil field deficiencies, he ordered regular oil field reviews (similar to an audit) for every field. He contrasted this with the more hands-off management style of al-Falih's predecessor, Abdullah Jum'ah.

¶3. (S/NF) Nasser explained that Aramco will only bring online an oil reserve if it can maintain at least a "30-year plateau" at a given rate of daily oil production. For example, if an oil field's recoverable assets would be exhausted after 25 years at an average production rate of 1.5 million bpd, then Aramco lowers the rate enough to stretch the life of the field to at least 30 years. Nasser said that in order to maximize recoverable oil reserves, Aramco "produces oil on the flanks of the fields, and then move towards the crest." However, our Western expatriate source said that over the last two years Aramco has been pumping straight from the crest to meet what was at the time rising demand for oil. He also said that the prevalence of horizontal wells, as opposed to vertical wells, increases the reservoir's exposure to water damage.

ARAMCO WANTS SAG TO RAISE PRICE ON GAS FEEDSTOCK

¶4. (S/NF) In an April 4 meeting, former Aramco President and CEO, Abdullah Jum'ah, told CG and EconOff that demand for cheap gas feedstock is unlimited in the petrochemical and power generation industries (ref A). Echoing Jum'ah's comment, Nasser said that at the current discount rate of US $0.75 per million Btu, Saudi Aramco could never find enough gas to meet all of the demand. Nasser said, "As soon as we find non-associated gas, we build the platforms [to produce it]," since they know that there is already demand for the gas. Jum'ah noted that in 1984 Saudi Aramco asked the SAG to raise the price from US $0.50 per million Btu to US $1.00. The SAG split the difference raising it to US $0.75; the price at which it remains today. Jum'ah commented that Aramco has been asking the SAG to increase the

price for a long time, but Saudi decision-makers "above the Ministry of Petroleum" consistently deny their requests.

ARAMCO UPSET BY THE U.S. ADMINISTRATION'S ANTI-FOREIGN OIL RHETORIC

¶5. (S/NF) On Apr 6, Jack Moore (protect), Director of Aramco's Washington office, told the CG and EconOff that Aramco's Executive Management have grown increasingly concerned about the new U.S. administration's pledges to end America's dependence on foreign oil imports. He said that al-Falih once angrily asserted to him, "We [Aramco] can take care of their addiction!" (Note: This statement was meant as a threat to cut off Saudi oil supplies to the U.S. End Note.) However, Moore said that he has tried to reassure the Executive Management that this was merely domestic political rhetoric and that the U.S. will continue to be a strong market for Saudi oil for a long time to come. In a paper that he was tasked to write for senior Aramco management on the topic, he said he noted that despite a likely decrease in U.S. aggregate demand for oil, Saudi imports will likely maintain current levels, as they have to pick up the slack on ever-decreasing oil production capacity in Mexico, the North Sea, and Venezuela. (Note: According to DOE figures, during January 2009 the U.S. imported 1.36 million bpd from Saudi Arabia, the third largest source of U.S. oil imports after Canada (2.54 million bpd) and Mexico (1.43 million bpd) and followed closely by Venezuela (1.35 million bpd). End Note.)

¶6. (S/NF) Moore said that al-Falih and other senior Executive Management appear to take the U.S. administration's anti-foreign oil comments "personally." He said that regardless of this, Aramco understands that they cannot simply abandon supplying the U.S. market. He said that Aramco knows that Asian markets are where the growth is, but they "don't trust China as an alternative market to the U.S." He added that in any case the decision to restrict oil supplies to the U.S. is "not al-Falih's, not Naimi's [Minister of Petroleum and Minerals], but the King's." (Comment: The previous U.S. administration put significant pressure on the SAG to increase oil production capacity, which they have acted on with questionable results as noted in para 2. The SAG and Aramco executives are therefore predictably upset to hear the new administration talk about reducing oil imports from the Middle East. End Comment.)
KENNY